

Message Text

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42

ACTION ARA-10

INFO OCT-01 ISO-00 FEA-01 ERDA-07 AID-05 CEA-01 CIAE-00

CIEP-02 COME-00 DODE-00 EB-07 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-15

SAM-01 OES-05 SP-02 SS-15 STR-04 TRSE-00 PA-02 PRS-01

DOT-00 /107 W

----- 129937

R 04222159Z SEP 75K

FM AMEMBASSY BOGOTA

TO SECSTATE WASHDC 617

INFO AMCONSUL CALI

AMCONSUL MEDELLIN

UNCLAS BOGOTA 8482

EO 11652: NA

TAGS: ENGR, CO

SUBJ: PRICE INCREASE FOR PETROLEUM PRODUCTS

SUMMARY:

1. GOC ANNOUNCED A GRADUAL PRICE INCREASE FOR PETROLEUM PRODUCTS. THE RETAIL PRICE OF GASOLINE WAS RAISED BEGINNING SEPT. 1, TO BE INCREASED MONTHLY DEPENDING ON CHANGES IN THE CONSUMER PRICE INDEX. END SUMMARY.

2. MINISTER OF MINES ANNOUNCED THAT GASOLINE PRICES WOULD BE RAISED FROM 3.42 PESOS TO 4 PESOS BEGINNING SEPT 1 AND THERE AFTER WOULD BE INCREASED GRADUALLY EACH MONTH. AT THE SAME TIME THE PETROLEUM DOLLAR WAS RAISED FROM 20 TO 22 PESOS. THE DECREE RAISING PETROLEUM PRICES DOES NOT STIPULATE THE ADDITIONAL MONTHLY PRICE INCREASES AND THE MONETARY RESOLUTION ONLY RAISED THE PETROLEUM DOLLAR BY TWO PESOS, THE INTENT, HOWEVER, SEEMS TO BE TO ALLOW THE PETROLEUM DOLLAR TO FLOAT UPWARD UNTIL IT

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EQUALS THE OFFICIAL EXCHANGE RATE. THIS INCREASE IN COSTS WILL BE PASSED ALONG IN PRODUCT PRICES. THE GOVERNMENT WILL MANAGE THE INCREASES WITH ONE EYE ON THE CPI AND THE OTHER ON POLITICAL REACTIONS. ONCE THE PETROLEUM DOLLAR IS ELIMINATED THE NEXT STEP WILL BE TO NEGOTIATE THE COLOMBIANIZATION OF PRODUCTION WITH THE BUY OUT FINANCED BY ADDITIONAL PRICE INCREASES FOR OLD CRUDE.

3. THE DECREE GIVES THE GOC ONE YEAR AUTHORITY TO AFFECT THE PRICE CHANGES. IF THE INTENTION IS TO ELIMINATE THE PETROLEUM DOLLAR IN THIS PERIOD, IT WILL BE DIFFICULT TO AVOID SOME STOCK PILING AND SPECULATION AS A CHANGE OF OVER 70 P/C WILL BE REQUIRED TO ELIMINATE THE PETROLEUM DOLLAR. MINISTER OF MINES ANNOUNCED THAT SOME ANTI-SPECULATIVE MEASURES WOULD SOON BE ANNOUNCED. GOC ALSO SAID URBAN TRANSPORT PRICES WOULD NOT BE INCREASED, MEANING EVEN LARGER SUBSIDIES TO URBAN BUSES. THE CORPORATION OF URBAN BUS TRANSPORT SAID IT IS NOT ASKING FOR HIGHER SUBSIDIES BUT WILL ASK THE PRESIDENT FOR AN INDEX OF TRANSPORT FARES TO FOLLOW THE SLIDING ADJUSTMENT.

4. THE PRICE OF WHITE GASOLINE, CONSUMED PRIMARILY BY THE POOR, WILL NOT BE INCREASED. TO PREVENT SUBSTITUTION AND ADULTERATION OF OTHER GASOLINE WITH WHITE GASOLINE THE COLOR WILL BE CHANGED TO BLACK.

5. PRESUMABLY THE GRADUALIST APPROACH IS DESIGNED TO TEST THE POLITICAL CLIMATE FOR PRICE CHANGES AND ACCUSTOM THE COUNTRY TO RISING PETROLEUM PRODUCT AND TRANSPORTATION COSTS. IT ALSO SHOULD HELP CONTROL THE INFLATIONARY EXPECTATIONS THAR A SHARP INCREASE MIGHT HAVE PRECIPITATED. IT REMAINS TO BE SEEN IF THE GRADUALIST APPROACH WILL HAVE A SIGNIFICANT IMPACT ON CONSUMPTION. THESE CHANGES ARE EXTREMELY MODEST AND CONSERVATIVE BUT THEY ARE FOLLOWED THROUGH WITH GRADUAL ADJUSTMENT OF RELATIVE PRICES THEY MAY WELL PROVE TO BE A SENSIBLE WAY TO MAKE PROGRESS ON IMMEDIATE PRICE PROBLEMS WHILE ESTABLISHING A SYSTEM THAT CAN EVOLVE INTO A MORE MARKET RELATED PRICING POLICY.

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